

A tale of two banks

Mohammed Amin

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Disclaimer (1)

- Finance is a complex subject and almost all issues require specific professional advice.
- Nothing in this presentation is intended to constitute professional advice.
- The presenter accepts no responsibility to anyone who may act, or refrain from acting, as a result of anything shown or said during this presentation.

Disclaimer (2)

- The speaker has had extensive contact with both banks mentioned in this presentation.
- No private information has been used.
- All information in this presentation is taken solely from the published accounts of the two banks.

Presentation outline

- Speaker details
- The business of banking
- A review of the accounts of:
 - Islamic Bank of Britain plc (IBB)
 - The Bank of London and the Middle East plc (BLME)

Mohammed Amin

Mohammed Amin is an Islamic finance consultant. Previously he was a partner in PricewaterhouseCoopers LLP and led their Islamic finance practice in the UK.

He is:

- a chartered accountant, a chartered tax adviser and a qualified corporate treasurer
- a Council member of the Chartered Institute of Taxation
- a member of the Policy & Technical Committee of the Association of Corporate Treasurers
- a member of the Editorial Advisory Board of “New Horizon”, the magazine of the Institute of Islamic Banking and Insurance

Amin has spoken on Islamic finance in over 20 cities covering every continent except Antarctica. Many of his articles and presentations on Islamic finance can be found on his website:

www.mohammedamin.com

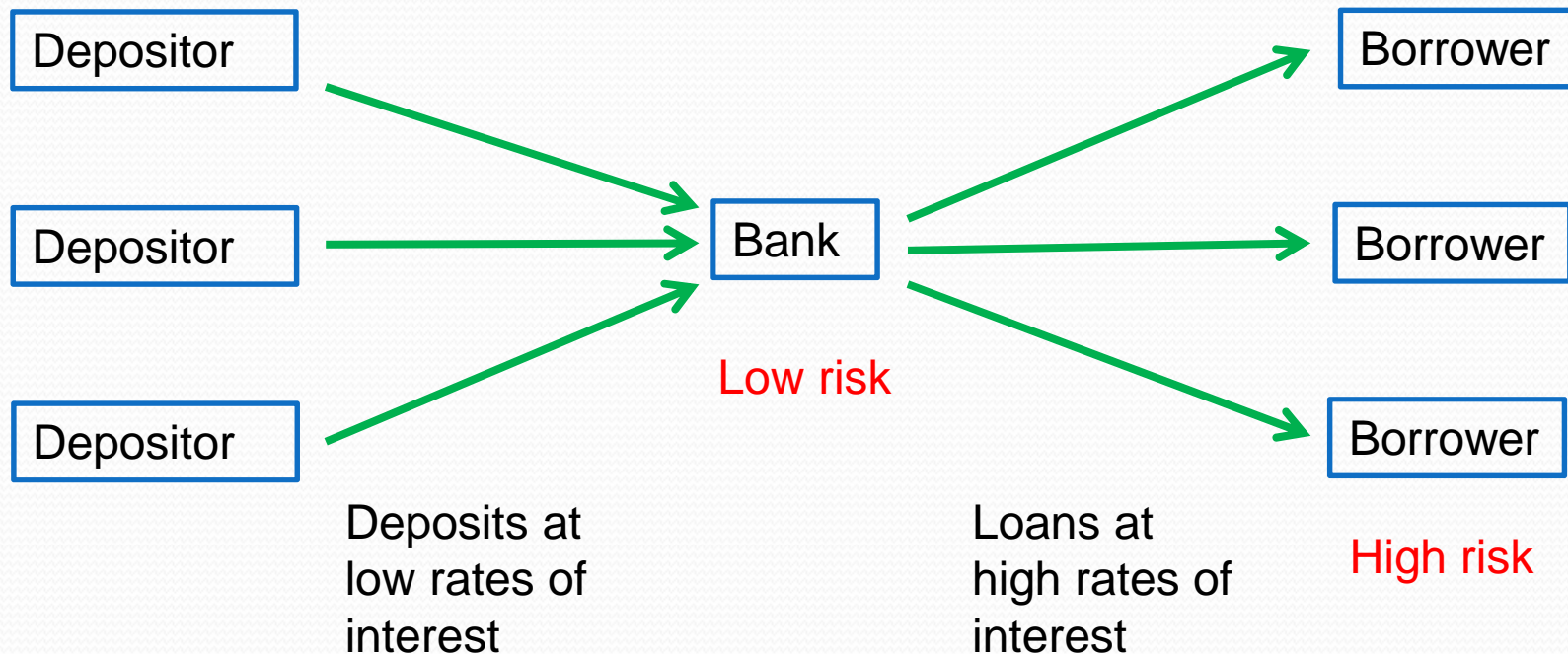


The business of banking

How banks make money

- Fees for services
- Principal investing
- Credit risk transformation
- Maturity transformation

Credit risk transformation

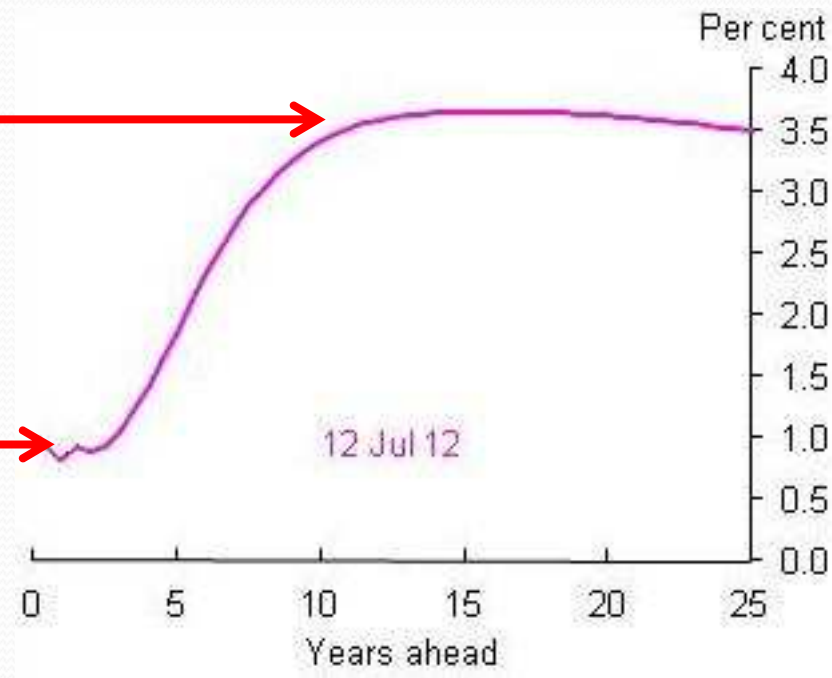


Maturity transformation

UK instantaneous commercial bank liability forward curve

Lend 10 year
money, earn
3.5%

Borrow demand
money, pay 1%



Accounts review

Business IBB

Principal activities

Islamic Bank of Britain PLC (the 'Company' or the 'Bank') is an Islamic **retail bank** in the United Kingdom established and managed on a wholly Sharia compliant basis.

The Bank offers a range of Sharia compliant banking solutions for both individual and business customers including **current accounts**, savings accounts, Home Purchase Plans and business financing. These are delivered through the Bank's network of **branches** and agencies, which is complemented by internet, telephone and postal banking channels. In order to widen the access to potential customers and improve its reach in the market, these products are also offered through independent brokers.

Business BLME

Principal activities

Bank of London and The Middle East plc was originally incorporated in the United Kingdom on 7 August 2006 (as United House of Britain plc) and received FSA authorisation to launch and start trading as a bank in the City of London on 5 July 2007. BLME, an independent **wholesale bank**, provides a range of Sharia'a compliant banking services and advice to businesses and individuals, with a strong focus on Europe, the Middle East and North Africa regions, requiring access to innovative Islamic financial products.

Management continuity: CEO / MD at year end

	BLME	IBB
2004	N/A	Michael Hanlon
2005	N/A	Michael Hanlon
2006	Humphrey Percy	Vacant (MH resigned 31.12.06)
2007	Humphrey Percy	Gerry Deegan
2008	Humphrey Percy	Gerry Deegan
2009	Humphrey Percy	Gerry Deegan
2010	Humphrey Percy	Gerry Deegan
2011	Humphrey Percy	Sultan Choudhury

Management continuity: CFO / FD at year end

	BLME	IBB
2004	N/A	None
2005	N/A	Ashraf Piranie
2006	Richard Williams	Ashraf Piranie
2007	Richard Williams	None
2008	Richard Williams	None
2009	Richard Williams	None
2010	Richard Williams	None
2011	Richard Williams	None

Size and equity / assets 31.12.11

	BLME	IBB
Total assets £'m	807	217
Shareholders' funds	239	17
Equity / total assets	29.6%	7.8%

Liability details 31.12.11

	BLME	IBB
Deposits from financial institutions	500.5	0.9
Deposits from customers – not profit sharing		34.4
Deposits from customers – profit sharing		160.8
Deposits from customers – sharing not specified	51.0	
Other liabilities	16.9	3.8
	-----	-----
Total liabilities	568.4	199.9
Shareholders funds	238.7	17.0
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Liabilities + shareholders funds	807.1	216.9

Asset details 31.12.11

	BLME	IBB
Financial institutions	174.0	144.8
Investment securities	81.4	
Financing arrangements – Murabaha, Mudaraba, Musharaka, Istisna, Ijara and Sukuk	299.1	0.9
Home purchase plans		61.3
Commercial property finance, mostly over 5 years		7.1
Finance leases, almost all under 5 years	131.0	
Operating lease assets	93.2	
Investment properties	12.9	
Other assets	15.5	2.8
	-----	-----
Total assets	807.1	216.9

Financing / assets 31.12.11

	BLME	IBB
Total assets £'m	807.1	216.9
Financings and investment assets	547.7	69.3
Ratio to total assets	67.8%	31.9%

Income / assets 2011

	BLME	IBB
Total assets £'m	807.1	216.9
Gross income	53.8	3.7
Ratio to total assets	6.7%	1.7%

Operating costs / assets 2011

	BLME	IBB
Total assets £'m	807.1	216.9
Operating costs	18.0	11.1
Ratio to total assets	2.2%	5.1%

Personnel costs / employees 2011

	BLME	IBB
Personnel costs £'000	9,519	4,200
Headcount	70	118
Per employee	135.9	35.6

Cost of funds 2011

	BLME	IBB
Total liabilities £'m	568.5	199.9
Payments for finance	9.4	1.5
Ratio	1.7%	0.8%

Profit / loss after tax £'m

	BLME	IBB
2004		-5.8 (17 months)
2005		-6.4
2006		-8.8
2007	0.2 (17 months)	-6.9
2008	2.4	-5.9
2009	-13.2	-9.5
2010	3.5	-8.1
2011	-8.9	-9.0

BLME loss years

	2009	2011
Loss before tax £'m	-18.9	-10.8
Impairment charge	-21.0	-15.2
Profit before impairment charge	2.1	4.4

BLME 2009 impairment charges

As at 31 December 2009, four facilities (3 individual and 1 collective) comprising amounts due to the Group of £37.2 million were determined to be impaired.

As at 31 December 2009, the individual provisions are against the transportation sector (\$4 million /2008: \$1.2 million), Sukuk issued by a Saudi based company (\$18.5 million) and a European manufacturing business (€2.5 million).

The collective provision of \$3 million (2008: \$0.27 million) is against a US finance lease portfolio in the transportation sector.

BLME 2011 impairment charges

As at 31 December 2011, 6 facilities (5 individual and 1 collective) comprising amounts due to the Group of £40.4 million (2010: 4 facilities totalling £20.8 million) were deemed to be impaired.

As at 31 December 2011, the individual provisions are £3.4 million (\$5.25 million) against the transportation sector (2010: £2.6 million / \$4 million), £2.1 million (€2.5 million) in respect of a European manufacturing business (2010: £2.2 million / €2.5 million), £0.5 million against the UK real estate sector (2010: £nil), £0.3 million (\$0.5 million) against a Sukuk issued by a Bahraini based company (2010: £nil / \$nil) and a £14.6 million (€17.5 million) provision against a Turkish manufacturing business (2010: £nil / €nil).

The collective provision of £0.5 million (\$0.7 million) is against a US finance lease portfolio in the transportation sector (2010: £1.5 million / \$2.3 million).

Concluding comments

Islamic banks are businesses whose responsibility is to maximise shareholder value. They face the same commercial challenges as conventional banks.

Success for both types of banks requires the same skills: clear strategy, risk management, HR management, customer segmentation etc.